

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 ISO-00 CIAE-00 DODE-00 PM-05

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SS-15 USIA-15 AID-05 COME-00 FRB-01 TRSE-00

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FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 3229

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY TOKYO

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USOECD

USEEC

E.O. 11652: N/A

TAGS: EIND, ETRD, SW

SUBJECT: SIGNIFICANT MERGER PLANNED IN SWEDISH SPECIALTY STEEL
INDUSTRY

REF: (A) 77 STOCKHOLM A-101, (B) 77 STOCKHOLM 4782

1. AT A PRESS CONFERENCE ON MARCH 3, 1978, MANAGING
DIRECTORS GUNNAR WESSMAN OF UDDEHOLMS AB, ERIK NYGREN OF
FAGERSTA AB, AND LENNART JOHANSSON OF THE SWEDISH BALL
BEARING COMPANY (SKF) ANNOUNCED THAT THE THREE COMPANIES
ARE PLANNING TO MERGE THEIR SPECIALTY STEEL DIVISIONS
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UNDER ONE COMPANY TO BE ESTABLISHED IN ABOUT TWO MONTHS'
TIME. FIFTEEN MILLS AND THREE IRON MINES IN THE BERG-
SLAGEN DISTRICT OF CENTRAL SWEDEN ARE AFFECTED. COORDI-
NATOR OF THE PROJECT IS ULF AF TROLLE, A PROFESSOR OF
BUSINESS ECONOMICS AND ADMINISTRATION WHO HAS BEEN
SUCCESSFUL IN REORGANIZING SEVERAL SWEDISH INDUSTRIAL CONCERNS.

2. SWEDISH INDUSTRY MINISTER NILS G. ASLING, WHO ALSO WAS PRESENT AT THE PRESS CONFERENCE, STATED HE WAS EXTREMELY PLEASED WITH THIS ADMIRABLE INITIATIVE ON THE PART OF SOME OF THE NATION'S BEST KNOWN SPECIALTY STEEL PRODUCERS. THE INITIATIVE IS IN KEEPING WITH THE RECOMMENDATIONS MADE IN A RECENT STUDY, WHICH ASLING HIMSELF COMMISSIONED, TO BRING ABOUT A COMPREHENSIVE STRUCTURAL RATIONALIZATION OF THE SPECIALTY STEEL INDUSTRY THROUGH CONCENTRATION, MERGERS, AND SHUTDOWNS OF UNPROFITABLE AND NONVIAABLE MILLS. THE STUDY, CONDUCTED BY TONY HAGSTROM, A FORMER UNDER SECRETARY OF THE MINISTRY OF INDUSTRY, IS NOW BEING THOROUGHLY EXAMINED AND EVALUATED BY OTHER SPECIALTY STEEL MANUFACTURERS WHO REPORTEDLY CAN COUNT ON RECEIVING GOVERNMENT FINANCIAL SUPPORT IF THEY FOLLOWED THE RECOMMENDATIONS OF THE STUDY. (SEE REFERENCE A).

3. ACCORDING TO INFORMATION HITERRTO MADE AVAILABLE, THE NEW SPECIALTY STEEL COMPANY WILL EMPLOY SOME 18,000 PERSONS, WITH ANNUAL SALES ESTIMATED AT ABOUT 4.5 BILLION KRONOR. OFFICIALS OF THE FEDERATION OF METALWORKERS, WHOSE MEMBER UNIONS INCLUDE STEELWORKERS, APPEAR TO BE GENERALLY SATISFIED WITH THE PLANNED MERGER. THE CONSENSUS IS THAT ALTHOUGH THE MERGER COULD CALL FOR SOME REDUCTION IN MANPOWER AT A FEW MILLS, IT WOULD HAVE A FAVORABLE IMPACT FROM THE LONGER RANGE UNCLASSIFIED

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VIEWPOINT AS PRODUCTION SCHEDULES ARE COORDINATED, OPERATIONS STREAMLINED, AND UNIT COSTS BROUGHT DOWN TO MORE COMPETITIVE LEVELS.

4. PROFESSOR AF TROLLE EMPHASIZED THAT IF THE MERGER SHOULD BECOME A REALITY (WHICH IS MORE THAN LIKELY), EACH OF THE THREE MERGING COMPANIES WILL LEAVE THE RANKS OF A RELATIVELY SMALL-TIME OPERATOR IN THE WORLD STEEL-MAKING LEAGUE TO BECOME A MEDIUM-SIZED STEEL PRODUCER IN THAT LEAGUE. THAT IS EXTREMELY IMPORTANT FOR AN INDUSTRY WHICH IS DEPENDENT UPON EXPORT TRADE TO MARKET ABOUT 70 PERCENT OF ITS TOTAL OUTPUT, SAID AF TROLLE. PROFESSOR AF TROLLE ALSO CALLED ATTENTION TO THE FACT THAT EACH OF THE THREE COMPANIES HAS EFFICIENT MARKETING ORGANIZATIONS. TODAY THESE ORGANIZATIONS ARE COMPETING WITH ONE ANOTHER AND THERE IS A GREAT DEAL OF OVERLAPPING OF SELLING EFFORTS. A COORDINATION OF SUCH ACTIVITY WOULD, IN LARGE MEASURE, FURTHER INCREASE EFFICIENCY AND COMPETITIVENESS TO THE ADVANTAGE OF ALL THREE COMPANIES. SUCH GAINS WOULD ALSO BE A SIGNIFICANT RESULT OF THE PLANNED MERGER, CONCLUDED AF TROLLE.

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5. ACCORDING TO THE AUTHORITATIVE SWEDISH BUSINESS JOURNAL VECKANS AFFARER OF MARCH 9, 1978, THE NEW SPECIALTY STEEL COMPANY WILL BE ONE OF THE EIGHT LEADING SPECIALTY STEEL PRODUCERS IN THE WORLD. THESE ARE REPORTEDLY CREUSOT-LOIRE, FRANCE (41,000 EMPLOYEES), KOBE, JAPAN (34,000), SUMITOMO, JAPAN (32,000), BRITISH STEEL'S SPECIALTY STEEL DIVISION (32,000), ROCHLING, WEST GERMANY (22,000), FAGERSTA-SKF-UDDEHOLM (18,000), THYSEN EDELSTAHL, WEST GERMANY (16,000) AND BOHLER (PART OF GOVERNMENT-OWNED VOEST-ALPINE, AUSTRIA) 16,000. THE THREE SWEDISH MERGING COMPANIES ALREADY ENJOY A DOMINATING POSITION IN THE WORLD MARKET FOR VARIOUS PRODUCTION.

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UCTS. FAGERSTA, FOR EXAMPLE, NOW HAS 40 PERCENT OF THE WORLD MARKET FOR COLD-ROLLED BAND AND STRIP USED MAINLY FOR SAW BLADES. FAGERSTA AND UDDEHOLM TOGETHER HAVE 26 TO 28 PERCENT OF THE WORLD MARKET FOR SPECIALTY GRADES OF WIRE. WITH RESPECT TO BARS AND RODS USED IN MAKING TOOLS AMONG OTHER THINGS, THE LATTER COMPANIES CONTROL 6 PERCENT OF THE WORLD MARKET. IN THE CASE OF HIGH-SPEED STEEL AS A WHOLE, THE NEW SWEDISH COMPANY WILL REPORT-EDLY HAVE A WORLD MARKET SHARE OF CLOSE TO 20 PERCENT. SKF IS ALREADY ONE OF THE WORLD'S THREE LEADING MANU-FACTURERS OF BALL BEARING STEEL, NOW SUPPLYING ABOUT 10 PERCENT OF TOTAL WORLD DEMAND, IT IS REPORTED.

6. A FOLLOW-UP REPORT ON DEVELOPMENTS IN SWEDEN'S SPECIALTY STEEL INDUSTRY WILL BE SUBMITTED TO THE DEPARTMENT WHEN THE NEW COMPANY IS FORMED AND FURTHER DETAILS BECOME AVAILABLE REGARDING PRODUCTION AND MARKET SHARES.
KENNEDY-MINOTT

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